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SUBJECT: Texas Instruments to Invest \$1 Billion in Philippines

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Summary: Texas Instruments announced a \$1 billion new investment in the Philippines on May 3 to expand its production of microchips by building new facilities at former Clark Airbase. The announcement once again reaffirmed the economic potential of the Philippines, while the specific conditions for the investment illustrate some of the reasons why the country has not been able to live up to that potential. End Summary.

A Spectacular Victory

¶2. Announced in a Malacanang ceremony by President Arroyo, TI's decision has Manila abuzz with optimism. Clark officials say they had several new inquiries by potential investors within hours of the announcement. Since TI spent months comparing the Philippines and China before coming to its decision, many had assumed pessimistically that the company would go to China. GRP officials, many of whom had been to Texas and worked hard developing incentive packages to get TI here, are ecstatic.

¶3. TI is also happy. With the worldwide market for cellular phones booming and TI providing the key communications chip for 95% of them from its Baguio facility, it needed to expand. The GRP demonstrated great flexibility and determination in developing an incentive package. While the new investment will be located on Clark, it will operate under Philippine Export Zone Authority (PEZA), giving it a different set of incentives (and the same incentives as TI's current investment). Incentives provided include a variety of tax exemptions and benefits, including a temporary corporate income tax holiday and a permanent cap on corporate income tax, duty-free imports, and simplified customs procedures.

The Real Reason

¶3. The company says publicly that the key factor in its decision was the quality of the workforce in the Philippines. Officials told EconCouns that the real bottom line was a bit more subtle. Although the qualified workforce the company finds in the Philippines is attractive, the deciding factor was the trained, high quality people already on the ground at TI's Baguio facility. Being able to build on this already-established cadre will make the expansion much easier and faster. "If we were not already here, we wouldn't come," one TI executive concluded.

¶4. TI celebrated its decision with a dinner at Clark, an hour from Manila. The highest GRP official at the dinner was the Administrator of the PEZA. Local officials were also in attendance. Neither the economic elite, nor the press were invited.

Comment: Being In the Philippines, or Not

15. Although the investment announcement, coming only ten days before national elections, got the presidential treatment, it was interesting to see how low-key TI's celebration was. In fact, it seemed indicative not only of TI, but of most major foreign investors in the Philippines. While they come here to take advantage of an excellent location and a highly-qualified workforce, they steer clear of contact with the Philippine government and business circles. PEZA serves as a waterbreak against political interference in their businesses and against corruption, providing one-interface through which most GRP requirements can be dealt with and an ombudsman to represent their interests before the government whenever necessary.

KENNEY